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PENNSYLVANIA STATE CHAMBER OF COMMERCE

TELEGRAPH BUILDING
HARRISBURG, PENNA.

Plans of Financing Home Building Projects

DECEMBER, 1919

HOUSING BUREAU
RITCHIE LAWRIE, JR., Director



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Pittsburgh, Pa., U. S. A., Nov. 14, 1919.

To our Members :—

Acting under the direction of the Executive Officers and Board of Directors of the Pennsylvania State Chamber of Commerce, your Committee on Housing Conditions has, after thorough investigation and a careful study of the situation, which developed an appalling shortage of homes of various kinds throughout the State, and a real demand for information and assistance in the solution of the perplexing problems that develop from time to time, established a Housing Bureau under the direction of Mr. Ritchie Lawrie, Jr., whose services are at the command of all the members of the State Chamber.

A comprehensive plan for assembling and disbursing information has been undertaken, resulting in the production of this pamphlet, which will be followed by additional information in the way of suggestions and plans for scientifically constructed houses which should, if properly used, render assistance not only to the home-seeker and builder, but to the architect and dealers in builders' supplies, in effecting economy through standardization of many essential requirements in building construction and financing.

The services of the Bureau are respectfully tendered for your use, and your constructive criticism, suggestions, and assistance are earnestly solicited.

Respectfully submitted,

HOUSING COMMITTEE,

F. R. BABCOCK, Chairman.

COMMITTEE :

F. R. BABCOCK

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D. SHELLEY KLOSS

“IF YOU WOULD MAN THE INDUSTRY—
FIRST HOUSE THE MAN”

FOREWORD

The Pennsylvania State Chamber of Commerce realizing the urgent need for homes throughout the State has established a Housing Bureau for the purpose of assisting all those interested in effecting a prompt and satisfactory solution of the Housing Problem.

The Housing Bureau is collecting information on this important subject which will be summarized and available at the headquarters of the State Chamber of Commerce. The Director is prepared to visit any community for conference, to address gatherings or to assist in any way practicable. One function of the Housing Bureau is to provide expert service expeditiously.

This financial pamphlet is the initial publication of the Housing Bureau. In its preparation the Bureau has collected information pertaining to methods of financing housing developments in different communities of the United States. A careful analysis has been made of this data and the result is presented in this pamphlet.

Four community and two industrial plans of financial methods have been selected as the most feasible means of operation and they are described in the following pages.

These plans outline general financial methods. The specific details have been left to the judgment of the local interests to determine the method to be pursued that will best meet local conditions and best serve the community. This has been deemed advisable since the financial program of a housing project will be determined largely by local conditions.

Correspondence concerning these plans and inquiries dealing with any phase of the Housing Problem will meet with prompt response by the Housing Bureau. Constructive suggestions from those who have had experience in Housing Problems will be welcomed.

Other phases of this important subject will be covered in later publications. A set of plates showing floor plans, elevations and perspectives of practical homes is now in preparation and will be issued in the near future.

Acknowledgment and an expression of our grateful appreciation is hereby extended to all who have in any way contributed to this work.

FINANCIAL PLANS

The cost of financing a small home under present day conditions presents the greatest difficulty not only to the prospective home builder but to the lending institution, the real estate dealer and the contractor, as well. The serious housing situation as it exists to-day throughout the entire country and especially in Pennsylvania is due to a combination of economic and war conditions. It is mainly attributed to (1) House construction entirely inadequate to keep pace with the unprecedented industrial expansion of the past five years. (2) Government building restrictions during the world war. (3) Increased land values. (4) Increased building costs. (5) Increased maintenance costs. As a result the agencies which in the past have satisfactorily provided homes for the workers are unable because of the sudden magnitude of the problem to build homes in sufficient quantities to even begin to meet the demand.

Fortunately the problem readily lends itself to solution by the formation of a Community Housing Company. Such an organization secures the co-operation of the prospective home builder, the home building agencies and the citizens, business interests and industries of a community. It is in a position to co-ordinate the best efforts of all concerned and to render the necessary financial assistance.

The adoption of a Financial Program is one of the first and most important questions confronting such a company. In general the funds required to finance a Community Housing project are secured from the sale of capital stock, the placing of mortgages and the initial payments made by the home seekers. These three sources of funds enter largely into nearly all financial plans, the detailed methods of application and procedure varying somewhat.

The financial policy will also be determined by the extent to which the company participates in the administrative problems confronting the project. The extent of this participation will be governed by the relation of the company to the home seeker, to the commercial and industrial interests and to the existent home building agencies such as the real estate dealers, the lending institutions, the architects, the town planners and the contractors.

Obviously a company which adopts the policy of utilizing the services of all these agencies will require the simplest form of financial organization.

If the company performs all or a part of the functions of these agencies a more extensive and comprehensive financial plan will be required. In this case the company will be called upon to levy a service charge to cover the additional overhead costs. In general this will not result in an increased cost to the home seeker, but on the contrary, properly handled, will effect a saving. The amount of such a service charge will be governed by the degree of participation by the company, involving a charge of from 1 per cent. to 6 per cent. of the total of the funds advanced to the home builder.

Certain features are prominent in the financing of Community and Industrial Housing Companies, namely:—

1. A strictly business organization—not a philanthropy nor a charity.

2. No watered stock or gift stock in any form.

3. Dividend payments on the invested capital restricted to a fair rate of interest, generally ranging from 4 to 6 per centum per annum.

4. Funds to be used to the fullest extent in providing homes for workers.

5. Elimination of all loan discounts.

6. Profits limited to reasonable and legitimate fees for services rendered by the Financing Company and the home building agencies.

7. Prevailing interest rates to apply against all loans.

8. The books of the Financing Company to be open for inspection to all stockholders.

9. All such companies, whether incorporated or not are subject to the supervision and control of the State Banking Department as provided for in Act No. 389, enacted by the Pennsylvania State Legislature, Session of 1919.

The financial plans Nos. 1 to 4 inclusive are primarily for the use of Community Companies, but with little or no alteration are applicable to industrial and commercial interests. Plans Nos. 5 and 6 are presented for the consideration of employers desiring to meet the situation within their own organization.

In considering the plans it should be noted that in general the various elements of each are interchangeable, thereby enabling a number of plans to be derived from the several given.

PLAN NUMBER ONE FOR COMMUNITY COMPANIES

1. *Capitalization.*—The capital funds of the Financing Company to be raised by public sale of certificates of stock. Subscriptions to be

made by individuals, estates, commercial and industrial interests. Fifty per cent. of the authorized capital to be subscribed immediately and to be subject to call on reasonable notice.

2. *First Mortgage*.—The home seeker to place a first mortgage with an individual, estate or lending institution. The Financing Company to approve and assist in placing the mortgage. The mortgage to be for an amount equal to at least 60 per cent. of the total cost of the home, including the improved lot.

3. *Second Mortgage*.—A second mortgage to be assumed by the Financing Company for an amount not in excess of 30 per cent. of the total cost of the home, including the improved lot.

4. *Initial Payment*.—The home seeker applying for the loan to have in cash, land or its equivalent an amount not less than 10 per cent. of the total cost of the home, including the improved lot. This payment to be made to the Financing Company at the time the loan is negotiated.

5. *Liquidation*.—Monthly installment payments in amount not less than 1 per cent. of the total cost of the home, including the improved lot, to be made to the Financing Company by the home seeker to meet the interest charges, to retire the second mortgage and eventually to retire the first mortgage.

6. *Revolving Fund*.—The release of the Financing Company funds due to the retirement of the second mortgage by the installment payments to be available for re-investment.

7. *Income*.—The gross income is estimated to be 6 per cent. of the invested capital. After deduction of expenses, such as salaries, office rent, etc., the net income of the Financing Company is estimated to be from 4 to 5 per cent. if the capital is fully invested.

PLAN NUMBER TWO FOR COMMUNITY COMPANIES

1. *Capitalization*.—The capital funds of the Financing Company to be raised by subscription by commercial and industrial interests. Fifty per cent. of the authorized capital to be subscribed immediately and to be subject to payment in specific amounts at certain definite periodic intervals.

2. *First Mortgage*.—The Financing Company to assume at the prevailing interest rate a first mortgage equal in amount to not less than 60 per cent. of the total cost of the home, including the improved lot.

3. *Second Mortgage*.—The Financing Company to assume at the prevailing interest rate a second mortgage equal in amount to not more than 30 per cent. of the total cost of the home, including the improved lot.

4. *Initial Payment*.—The home seeker applying for the loan to have in cash, land or its equivalent an amount not less than 10 per cent. of the total cost of the home, including the improved lot. This payment to be made to the Financing Company at the time the loan is negotiated.

5. *Liquidation*.—Installment payments to be made monthly by the home builder at a rate of not less than 1 per cent. of the amount advanced. The payments to begin when the loan is made.

6. *Revolving Fund*.—The Financing Company to sell trust notes to investors, pledging the mortgages as collateral, thus constantly securing additional funds of increasing effectiveness for re-investment.

7. *Income*.—The net income will depend largely upon the rapidity of re-investing the Financing Company's funds. It is estimated not to exceed 6 per centum of the invested capital.

PLAN NUMBER THREE FOR COMMUNITY COMPANIES

1. *Capitalization*.—The capital funds of the Financing Company to be raised as described in Plan No. 1. Certificates of paid up stock in one or more approved building and loan associations to be purchased as fast as the capital funds are received.

2. *First Mortgage*.—The home seeker, with the assistance of the Financing Company, to place a first mortgage with a building and loan association in which the Financing Company holds stock certificates. The amount of this mortgage to be not less than 60 per cent. of the total funds required.

3. *Second Mortgage*.—The second mortgage as such does not enter into this plan but appears in different form. In case the building and loan association is prevented from assuming the degree of risk represented by the difference between the amount of the initial payment of the home seeker and the total loan, then the Financing Company will assign to the building and loan association certificates of paid up stock of the building and loan association held by the Financing Company. The amount of this assignment to equal the difference between the

loan assumed by the building and loan association and the sum required by the home seeker.

4. *Initial Payment.*—The applicant to make an initial payment to the building and loan association at the time the loan is negotiated. This payment to be not less than 10 per cent. of the total cost of the home and improved lot.

5. *Liquidation.*—The home seeker to make monthly installment payments to the building and loan association in amount equal to not less than 1 per cent. of the funds advanced. A portion of these payments to apply against the interest charges and the balance to release the paid up certificates assigned to the building and loan association by the Financing Company.

6. *Revolving Fund.*—The Financing Company funds to be released for re-investment by applying the installment payments against the certificates of paid up stock held by the Financing Company. As these certificates of paid up stock are released they become immediately available for furthering new loans.

7. *Income.*—The gross income of the Financing Company will amount to the rate of interest paid by the building and loan association on the paid up certificates of stock.

PLAN NUMBER FOUR FOR COMMUNITY COMPANIES

1. *Capitalization.*—The capital funds of the Financing Company to be raised by public sale of certificates of stock at a par value not to exceed \$100. Subscriptions to be made by individuals, estates, commercial and industrial interests. Ten per cent. of the total amount subscribed to be paid at the time of subscription and the balance in periodic installments.

2. *First Mortgage.*—The home seeker to place a first mortgage equal to not less than 60 per cent. of the total funds required, with any one of a number of lending institutions approved and recommended by the Financing Company.

3. *Second Mortgage.*—The Financing Company to take as collateral a land contract to cover the amount required to bridge over the difference between the first mortgage plus the initial payment and the total loan. In this plan the home seeker is required to purchase a lot on his own terms.

4. *Initial Payment.*—The home seeker to hold as equity in a lot an amount equal to at least 10 per cent. of the total funds to be advanced.

5. *Liquidation.*—The home seeker to pay to the Financing Company each month an amount equal to not less than 1 per cent. of the cost of the house. These payments to retire the loan advanced by the Financing Company, at which time the land contract will be terminated and the home builder given a deed to the property. In addition the borrower is also required to meet the interest charges of the first mortgage, to pay the taxes and to carry fire insurance.

6. *Revolving Fund.*—The Financing Company to secure funds for re-investment by negotiating loans and offering the land contracts as security.

7. *Income.*—The estimated gross income with the capital fully invested to be 5 to 6 per cent. per annum.

PLAN NUMBER FIVE FOR INDUSTRIAL COMPANIES

1. *Capitalization.*—Capital funds to be appropriated by the company or companies entering into the housing project.

2. *First Mortgage.*—In lieu of a first mortgage a demand note at the current rate of interest is given by the employee to the company for the customary first mortgage amount.

3. *Second Mortgage.*—In lieu of a second mortgage the employee gives a time note to the company. This time note to be payable after a number of years at the current rate of interest. For example, a \$1,000 note payable in 12 years with interest at 5 per cent.

4. *Initial Payment.*—The employee is required to make a payment of not less than 10 per cent. of the total cost of the house, including the improved lot at the time the loan is negotiated.

5. *Liquidation.*—The employee agrees to purchase the requisite number of shares in a building and loan association or other approved lending institution upon which periodic installment payments are made so that the deposits at the current rate of interest will have matured in a sum equal to the face value of the time note at the date set for payment of the time note. The employee also agrees to carry the loan by making monthly interest payments to the company on the demand and time notes. The company agrees not to act upon the demand note as long as the employee continues to fulfill his part of the agreement; that

is, to make monthly interest payments to the company and monthly payments to the lending institution.

6. *Insurance Benefit*.—If the employee should die or become incapacitated within the payment time of the time note, provided that in the event of death the employee is not over sixty years of age, the company will accept the cash surrender value of the shares of the lending institution as full payment of the time note. The property will then be free from all incumbrances except the amount of the demand note, which, at the option of the employee or his heirs, may be transferred as a first mortgage to a lending institution.

FINANCIAL PLAN NUMBER SIX FOR INDUSTRIAL COMPANIES

1. *Capitalization*.—Capital funds to be provided by the company or companies interested.

2. *First Mortgage*.—The company will assist the employee in placing a first mortgage with a lending institution to cover at least 60 per cent. of the total funds required.

3. *Second Mortgage*.—In lieu of a second mortgage a time note is given by the employee to the company for an amount equal to the difference between the first mortgage plus the initial payment and the total funds required.

4. *Initial Payment*.—The employee is required to make a payment of not less than 10 per cent. of the total cost of the home, including the improved lot at the time the loan is negotiated.

5. *Liquidation*.—The employee agrees to purchase a combination "life-accident" insurance policy and to maintain same in force until paid up, at which time the cash surrender value will be used to liquidate the time note and possibly a portion of the demand note. The employee is required to make monthly interest payments to the lending institution and to pay taxes and carry fire insurance.

6. *Insurance Benefit*.—In the event of the death of the employee or injury to the extent of causing partial or total disability the compensation paid by the Insurance Company will be available to pay off the time note and possibly a portion of the demand note. The property will then be free of all incumbrances except the first mortgage.

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CONTENTED WORKERS”



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